

**REPORT OF THE AUDIT OF THE  
BREATHITT COUNTY  
SHERIFF'S SETTLEMENT – 2009 TAXES**

**For The Period  
April 16, 2009 Through April 15, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**BREATHITT COUNTY**  
**SHERIFF'S SETTLEMENT – 2009 TAXES**

**For The Period**  
**April 16, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Breathitt County Sheriff for the period April 16, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,944,247 for the districts for 2009 taxes, retaining commissions of \$122,025 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,816,117 to the districts for 2009 taxes. Taxes of \$4,852 are due to the districts from the Sheriff.

**Report Comments:**

- The Sheriff Had A Deficit Of \$1,706 In His 2009 Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Harvey Jason Richardson, Breathitt County Judge/Executive

Honorable Ray Clemons, Breathitt County Sheriff

Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the Breathitt County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010. This tax settlement is the responsibility of the Breathitt County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Breathitt County Sheriff's taxes charged, credited, and paid for the period April 16, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Harvey Jason Richardson, Breathitt County Judge/Executive  
Honorable Ray Clemons, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Had A Deficit Of \$1,706 In His 2009 Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

January 5, 2011



BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 16, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 254,457	\$ 629,228	\$ 1,006,084	\$ 337,432
Tangible Personal Property	69,109	164,752	235,812	258,394
Fire Protection	4,820			
Increases Through Exonerations	52	128	229	69
Franchise Taxes	34,632	83,076	117,350	
Additional Billings	26	64	114	34
Oil and Gas Property Taxes	10,774	26,641	47,544	14,287
Bank Franchises	27,370			
Penalties	1,740	4,227	6,795	2,177
Adjusted to Sheriff's Receipt	262	1,073	451	561
Gross Chargeable to Sheriff	<u>403,242</u>	<u>909,189</u>	<u>1,414,379</u>	<u>612,954</u>
<u>Credits</u>				
Exonerations	4,994	12,341	20,620	6,618
Discounts	4,698	10,693	16,620	7,547
Delinquents:				
Real Estate	29,348	70,922	115,691	38,033
Tangible Personal Property	<u>5,329</u>	<u>12,703</u>	<u>19,044</u>	<u>20,316</u>
Total Credits	<u>44,369</u>	<u>106,659</u>	<u>171,975</u>	<u>72,514</u>
Taxes Collected	358,873	802,530	1,242,404	540,440
Less: Commissions *	<u>15,252</u>	<u>34,108</u>	<u>49,696</u>	<u>22,969</u>
Taxes Due	343,621	768,422	1,192,708	517,471
Taxes Paid	342,705	765,481	1,190,615	517,316
Refunds (Current and Prior Year)	<u>191</u>	<u>464</u>	<u>443</u>	<u>155</u>
Due Districts or as of Completion of Audit	<u>\$ 725</u>	<u>** \$ 2,477</u>	<u>\$ 1,650</u>	<u>\$ 0</u>

\* And \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
SHERIFF'S SETTLEMENT -2009 TAXES  
For The Period April 16, 2009 Through April 15, 2010  
(Continued)

\* Commissions:

4.25% on	\$	1,701,843
4% on		1,242,404

\*\* Special Taxing Districts:

Library District	\$	722
Health District		869
Extension District		685
Soil District		201
		<hr/>
Due Districts	\$	<u>2,477</u>

BREATHITT COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Breathitt County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BREATHITT COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2010  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Breathitt County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2009 through April 15, 2010.

Note 4. Interest Income

The Breathitt County Sheriff earned \$303 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Breathitt County Sheriff collected \$4,530 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Court Ordered Reimbursement For Theft Of Monies By A Former Bookkeeper

On April 12<sup>th</sup> and June 18<sup>th</sup>, 2010, the Breathitt County Circuit Court ordered that the former bookkeeper pay restitution in the amount of \$41,000 for the theft of monies from the Breathitt County Sheriff's Office. The order states that \$14,000 be paid to the Breathitt County Sheriff and \$27,000 be paid to the Breathitt County Fiscal Court. The payments are set up at \$100 per month until paid in full.

BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period April 16, 2009 Through April 15, 2010

Assets

Cash in Bank ( All Tax Accounts)	\$ 15,120
Deposits in Transit	14,978
Collected Receivables	<u>680</u>
Total Assets	<u>30,778</u>

Liabilities

Paid Obligations-		
Outstanding Checks	\$ 5,462	
Paid Liabilities	<u>22,170</u>	
Total Paid Obligations		27,632
Unpaid Obligations-		
Other Taxing Districts-		
County	725	
School	1,650	
Library	722	
Health	869	
Extension	685	
Soil	<u>201</u>	
Total Unpaid Obligations		<u>4,852</u>
Total Liabilities		<u>32,484</u>
Total Fund Deficit as of April 15, 2010		<u><u>(1,706)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Harvey Jason Richardson, Breathitt County Judge/Executive  
Honorable Ray Clemons, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Breathitt County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010, and have issued our report thereon dated January 5, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Breathitt County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Breathitt County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Had A Deficit Of \$1,706 In His 2009 Tax Account

The Breathitt County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Breathitt County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 5, 2011

## COMMENTS AND RECOMMENDATIONS



BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2009 Through April 15, 2010

STATE LAWS AND REGULATIONS:

The Sheriff Had A Deficit Of \$1,706 In His 2009 Tax Account

The Breathitt County Sheriff has a \$1,706 deficit in his 2009 tax account due to undeposited receipts. The reconciled bank balance as of April 15, 2010 was \$3,146 and the Sheriff has unpaid obligations of \$4,852, resulting in the \$1,706 deficit. We recommend the Sheriff eliminate the deficit.

*Sheriff's Response: Payment is pending at this time.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of recording, depositing, receiving, and reconciling cash being delegated to the same individual. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk of errors, misstatement, and/or fraud will occur and go undetected. Since only one performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. We recommend the Sheriff segregate the duties of recording, depositing, and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing daily checkout sheet to the receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, reviewing invoices prior to payment, and reviewing all financial reports. The Sheriff could document his review process by initialing reports and supporting documentation.

*Sheriff's Response: Segregation of duties continues to be a problem due to lack of additional funds for extra staff. The sheriff will work closer with the Bookkeeper in reviewing/checking of financial documents and everyday transactions.*

